

**MISSOURI TAX REVIEW COMMISSION SUBCOMMITTEE
REPORT AND RECOMMENDATION
COVER SHEET**

Prepared and Approved by: Agriculture and Environment Tax Credit Committee
Submitted to The Missouri Tax Credit Review Commission on: October 22, 2010

Name and Statutory Citation of Credit:

Family Farm Breeding Livestock Loan Program, Sections 348.500 and 348.505, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Family Farm Breeding Livestock Loan Program is intended to promote family farms by allowing a tax credit for lenders in lieu of the first year interest paid on breeding livestock loans made to small farmers.

2 Cost - Benefit Analysis

FY 2009 2.22

FY 2010 4.51 (estimated)

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 62 2010: 50 (estimated)

(b) 2009: 62 2010: 50 (estimated)

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$141,973 2010: \$104,798 2011: \$45,000 (estimated)

2012: \$40,000 (estimated) Est Amt. Outstanding: \$72,609

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: N/A

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment – **Family Farm Breeding Livestock Tax Credit**

The committee recommends that the Family Farm Breeding Livestock Tax Credit be modified during the 2011 legislative session (prior to the 2012 sunset) to better effectuate the purpose of the credit in promoting family farms by tying the availability of the credit to the price of the livestock, rather than the amount borrowed (and interest rate applied to the amounts borrowed) by the applicant. As currently structured, the tax credit creates a perverse incentive for an applicant to borrow more money at a higher rate of interest than they otherwise might in order to obtain a larger tax credit. This could potentially lead to manipulation of the system.

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Name and Statutory Citation of Credit:

Wine and Grape Production, Section 135.700, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Wine and Grape Production Tax Credit is intended to promote wine production and sales in Missouri.

2 Cost - Benefit Analysis

FY 2009 .27 5 years: .12
FY 2010 .28 (est.) 5 years: .18 (est.)

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 31 2010: 21
(b) 2009: 31 2010: 21

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$153,821 2010: \$112,057 2011: \$67,500 (estimated)
2012: \$67,500 (estimated) Est Amt. Outstanding: \$33,748

5 Recommended Priority Category of Credit (A, B, C, or D): D

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit: See attached.

9 Attachments Explaining Alternatives for Modification of Credit:

10 Minority Report(s) Attached:

Attachment – **Wine and Grape Production Tax Credit**

The committee recommends that the Wine and Grape Production Tax Credit be terminated during the 2011 legislative session because the credit has outlived its usefulness and does not create a benefit that is justifiable in relation to its cost to the State of Missouri.

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Name and Statutory Citation of Credit:

Qualified Beef Tax Credit, Section 135.679, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Qualified Beef Tax Credit is intended to promote the beef production and processing industry in Missouri.

2 Cost - Benefit Analysis

No data (first issuance in late FY2010)

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 0 2010: 4

(b) 2009: 0 2010: 4

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$0 2010: \$43,028 2011: \$25,000 (estimated)

2012: \$25,000 (estimated) Est Amt. Outstanding: \$43,028

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: N/A

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment - **Qualified Beef Tax Credit**

The committee recommends that the Qualified Beef Tax Credit be modified during the 2011 legislative session to sunset on December 31, 2013 and that, prior to reauthorization, the General Assembly should fully evaluate this relatively new program to determine the relationship of the credit to its goal of promoting beef production and processing in the State of Missouri.

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Name and Statutory Citation of Credit:

Charcoal Producers Tax Credit, Section 135.313, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Charcoal Producers Tax Credit is intended to promote the charcoal industry in Missouri by helping to offset the cost incurred by charcoal producers to purchase and install pollution control equipment.

2 Cost - Benefit Analysis

DNR is unable to quantify

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 0 2010: 0

(b) 2009: 0 2010: 0

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$134,663 2010: \$14,642 2011: \$1,079,447 (estimated)

2012: \$0 (estimated) Est Amt. Outstanding: \$1,079,447

5 Recommended Priority Category of Credit (A, B, C, or D): D

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit: See attached.

9 Attachments Explaining Alternatives for Modification of Credit:

10 Minority Report(s) Attached:

Attachment – **Charcoal Producers Tax Credit**

The committee recommends that the Charcoal Producers Tax Credit not be reauthorized as it has outlived its usefulness.

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Name and Statutory Citation of Credit:

Alternative Fuel Stations, Section 135.710, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Alternative Fuel Stations Tax Credit is intended to promote the construction of certain alternative fuel infrastructure in Missouri.

2 Cost - Benefit Analysis

No credits issued to date.

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 0 2010: 0

(b) 2009: 0 2010: 0

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$0 2010: \$0 2011: \$300,000 (estimated)

2012: \$300,000 (estimated) Est. Amt. Outstanding: \$0

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: N/A

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment - **Alternative Fuel Stations**

The committee recommends that if the Alternative Fuel Infrastructure Tax Credit is reauthorized during the 2011 legislative session (currently set to sunset after tax year 2012), the General Assembly should consider expanding its applicability to include electric vehicle infrastructure and should continue the annual cap of \$1 million to ensure budget predictability.

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Name and Statutory Citation of Credit:

Wood Energy Tax Credit, Sections 135.300-135.311, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Wood Energy Tax Credit is intended to promote the use of processed wood residue and its byproducts in the production of charcoal and other wood products.

2 Cost - Benefit Analysis

No cost-benefit analysis performed by DNR.

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 15 2010: 16

(b) 2009: 15 2010: 16

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$4,576,446 2010: \$1,546,453 2011: \$2,446,064 (estimated)

2012: \$2,856,321 (estimated) Est. Amt. Outstanding: \$5,259,147

5 Recommended Priority Category of Credit (A, B, C, or D): D

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit: See attached.

9 Attachments Explaining Alternatives for Modification of Credit:

10 Minority Report(s) Attached:

Attachment - **Wood Energy Tax Credit**

The committee recommend that the Wood Energy Tax Credit be terminated during the 2011 legislative session (rather than waiting for it to sunset in 2013) because the credit has outlived its usefulness and its costs outweigh its benefits to the State of Missouri.

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Name and Statutory Citation of Credit:

Agriculture Product Utilization Contributor Tax Credit Program, Section 348.430, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Agriculture Product Utilization Contributor Tax Credit is intended to promote agricultural business concepts through the funding of financial or technical assistance in the form of value-added grants, loans, equity investments, or guaranteed loans.

2 Cost - Benefit Analysis
FY2009 14.77 (IMPLAN modeling)
10-year return: 2.81 (IMPLAN modeling)

FY2010 33.32 (IMPLAN modeling)
10-year return: 31.21 (IMPLAN modeling)

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 0 2010: 11
(b) 2009: 0 2010: 11

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$145,162 2010: \$114,674 2011: \$1,000,000 (estimated)
2012: \$1,000,000 (estimated) Est. Amt. Outstanding: \$2,022,627

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment - **Agriculture Product Utilization Contributor Tax Credit Program**

The committee recommends that the Agricultural Product Utilization Contributor and the New Generation Co-Op Incentive Tax Credit Programs be combined into one program with an annual cap of \$6 million, with discretion to MASBDA to allocate credits under the cap to projects eligible under either former program that provide the greatest return on investment to the State of Missouri, including by providing the least amount of state funding necessary to evaluate the feasibility of the project. In addition, the programs should be modified to explicitly require that they be utilized in rural areas.

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Name and Statutory Citation of Credit:

New Generation Cooperative Incentive Tax Credit Program, Section 348.432, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The New Generation Cooperative Incentive Tax Credit Program is intended to induce private investment in entities that process Missouri agricultural commodities and agricultural products into value-added goods, benefit Missouri's agricultural products, and result in job creation.

2 Cost - Benefit Analysis

FY2009 1.41

10-year return: 3.76

FY2010 2.09

10-year return: 3.60

3 Number of Persons: (a) Applying for; and (b) Utilizing Credit in:

(a) 2009: 0 2010: 11

(b) 2009: 0 2010: 11

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$4,190,256 2010: \$3,280,715 2011: \$3,250,000 (estimated)

2012: \$3,250,000 (estimated) Est. Amt. Outstanding: \$8,997,455

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: 2011 Legislative Session

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment - **New Generation Cooperative Incentive Tax Credit Program**

The committee recommends that the Agricultural Product Utilization Contributor and the New Generation Co-Op Incentive Tax Credit Programs be combined into one program with an annual cap of \$6 million, with discretion to MASBDA to allocate credits under the cap to projects eligible under either former program that provide the greatest return on investment to the State of Missouri, including by providing the least amount of state funding necessary to evaluate the feasibility of the project. In addition, the programs should be modified to explicitly require that they be utilized in rural areas.

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Family Farm Breeding Livestock Loan Program, Sections 348.500 and 348.505, RSMo.

1 Objective, Purpose, and Perceived Beneficial Effects of Credit (e.g., Economic Development/Societal Need Met)

The Family Farm Breeding Livestock Loan Program is intended to promote family farms by allowing a tax credit for lenders in lieu of the first year interest paid on breeding livestock loans made to small farmers.

2 Cost - Benefit Analysis

FY 2009 2.22

FY 2010 4.51 (estimated)

3 Number of Persons: (a) Applying for; and
(b) Utilizing Credit in:

(a) 2009: 62 2010: 50 (estimated)

(b) 2009: 62 2010: 50 (estimated)

4 Fiscal Impact on State in 2009, 2010, 2011, and Estimated Impact in 2012 (Amount in \$\$ of Redemptions), and Total Remaining Unredeemed Credits:

2009: \$141,973 2010: \$104,798 2011: \$45,000 (estimated)

2012: \$40,000 (estimated) Est Amt. Outstanding: \$72,609

5 Recommended Priority Category of Credit (A, B, C, or D): B

6 Recommended Date of Termination if Category D: N/A

7 Attachments Explaining Reasons to Retain Credit:

8 Attachments Explaining Reasons to Terminate Credit:

9 Attachments Explaining Alternatives for Modification of Credit: See attached.

10 Minority Report(s) Attached:

Attachment – **Family Farm Breeding Livestock Tax Credit**

The Family Farm Breeding Livestock Loan Program is governed by Sections 348.500 and 348.505, RSMo. It provides a tax credit to a lender in lieu of the first year interest payable on breeding livestock loans made to “small farmers” who are Missouri residents and who have less than \$250,000 in gross agricultural product sales per year. The Maximum eligible loan can’t exceed 90% of the cost of purchasing breeding livestock. The maximum loan that can be taken into account is limited further by the type of breeding livestock involved, i.e., for Beef or Dairy cattle the cap is \$75,000; for Sheep or Goats the cap is \$30,000; and for Swine the cap is \$35,000. The credit accrues to an “eligible lender” as defined in Section 348.015 RSMo. (which is basically any commercial lender such as a bank or savings and loan), and not to the farmer. The credit is equal to 100% of the interest “waived by the lender.”

The credit is not refundable, but may be carried forward by the lender for up to 3 years. The credit may be assigned.

The Tax Credit Review Commission is concerned that this credit, as designed, provides the unintended consequence of encouraging a farmer to borrow more and at higher rates than otherwise might be the case. In other words, the credit’s benefit is maximized if the loan is for the full cap amount and at as high of an interest rate as the lender believes will be approved by the Missouri Agricultural and Small Business Development Authority (which administers this program). It also perhaps incentivizes the lender and farmer to “collude” by making the ostensible interest rate in the first year of the loan to be as high as possible and thereafter reduce that rate. However, the program is limited to a maximum of \$300,000 per fiscal year (Section 348.505.2).

The apparent purpose of this credit is to encourage farmers to acquire breeding livestock. It does not seem obvious or relevant to the Commission why this goal should be related to the amount borrowed by a farmer.

Accordingly the Commission has recommended that this credit be restructured. The Commission suggests that the credit be related to the purchase price of the breeding livestock. Based on all tax credits issued since the program started (August 2007 – present), the actual amount of tax credits issued would have been approximately 7.0% (6.99% rounded up) of the total qualifying purchase price. Thus the Commission believes it is reasonable to assume that the same cost to the state and the goals of this credit could be more easily accomplished if the farmer receives the credit, and the credit is limited to 7.0% of the total qualifying purchase price of the eligible breeding livestock, subject to the statute’s existing limits, i.e., the total qualifying purchase price is the lesser of the actual purchase price of eligible livestock or \$75,000 for Beef and Dairy, \$30,000 for Sheep and Goats, and \$35,000 for Swine.